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April 2, 1997

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Federal Communications Commission
Office of Secretary

Mr. William F. Caton
Acting Secretary
1919 M Street N.W., Room 222
Federal Communications Commission
Washington, D.C. 20554

RE: CC Docket Nos. 96-45 and 96-262

Dear Mr. Caton:

Today, the attached letter was delivered by the undersigned on behalf of BellSouth, Pacific Telesis and Southwestern Bell Corporation to the office of Chairman Hundt in connection with the above referenced proceedings.

Please call me if you have any questions.

Sincerely,

WW Jordan

W. Whit Jordan
Executive Director - Federal Regulatory

Attachment

cc: Chairman Reed E. Hundt
Commissioner James H. Quello
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Mr. James Coltharp
Mr. Daniel Gonzalez
Mr. James Casserly
Mr. Thomas Boasberg
Ms. Regina M. Keeney
Mr. A. Richard Metzger, Jr.
Ms. Kathleen B. Levitz
Mr. John Nakahata
Mr. Joseph Farrell
Mr. James D. Schlichting
Mr. Richard K. Welch

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April 2, 1997

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: *In the Matters of Federal-State Joint Board on Universal Service and Access Charge Reform, CC Docket Nos. 96-45 and 96-262*

Dear Chairman Hundt:

The telecommunications industry and the Commission are faced with the introduction of the various requirements of the Telecommunications Act of 1996, modifications to the access charge structure and the creation of an explicit universal service funding mechanism in a very compressed time frame. The issues are very critical to progress toward a fully competitive industry and the continued provision of universal service. The pressures to reduce access charges, a traditional source of universal service funding, add additional complexities to the task.

In the spirit of continuation and expansion of universal service, reduction of access charges, and the continued progress toward a fully competitive industry, we have prepared and support an interim proposal that contains a series of principles and steps of action that we recommend the Commission include in the upcoming order to be issued on May 8, 1997.

The recommended proposal will produce lower, more efficient access charges by removing the majority of implicit support and replacing it with a competitively neutral interstate high cost universal service fund. The Commission should rely upon known quantities of existing implicit and explicit interstate support to initially size the fund. This should reduce the potential for dissatisfaction because these support flows are generated by current interstate mechanisms. Only the method of allocating funding responsibility need change to ensure contribution to the fund by all interstate telecommunications service providers. The most competitively neutral method by which to accomplish this change would be to allocate funding obligations on the basis of interstate retail revenues. The Commission's adoption of this method would not have to depend on a proxy model to size the fund, but instead could use an existing model to target support. Once this was accomplished, the support per line for the geographic area could be calculated and made portable to all eligible telecommunications carriers serving the area.

Sizing the interstate support fund as recommended would allow incumbent local exchange carriers ("ILECs") to eliminate carrier common line charges and to reduce local switching by the amount of the switch line port costs. The Commission should establish a discrete charge which would apply to interexchange carriers ("IXCs") on a presubscribed line basis to allow ILECs to recover their funding obligation. Although this change will not completely eliminate the implicit support in access charges, IXCs will see a reduction in their current interstate access charges. As many IXCs and ILECs have pointed out, only an end user surcharge could totally replace all implicit support currently in access charges and long distance prices.

The proposal also implements several other changes designed to resolve Transport Interconnection Charge ("TIC") issues through price reallocation and establishment of a flat rate charge. This flat rate charge should be applied on a presubscribed line basis similar to the flat rate charge described above. The two charges combined would be capped at $2.00 per residence or business line. It should be noted that the Commission's recent proposal to assess a higher line charge to business customers would contradict the Commission's desire for "widespread competition" and would competitively disadvantage ILECs both urban and rural.

Finally, any increases to the current subscriber line charge ("SLC") must be applied uniformly across all lines. In today's environment, it is impossible to accurately identify "secondary lines" because of the variety of uses of each line into the subscriber's residence. Selectively applying an increase based on "perceived" line type is not possible. Application of increases only to business lines is counterproductive to virtually all regulatory efforts at the federal and state levels for the last ten years. Further, increasing the difference between the consumer price of residence and business lines has no logic and no relation to recovery of actual cost. The Commission should consider an affordability criteria that could be used to evaluate the level of the SLC in the long term solution.

In summary, the attached proposal, if adopted as a package, will provide the Commission with a balanced first step to solving the numerous and complex universal service and access reform issues. We look forward to the opportunity to discuss the attached approach with you.

Sincerely,

DJ Markey — T. O. Moulton Jr. — Dale Robertson

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| David J. Markey<br>VP-Governmental Affairs<br>BellSouth | Thomas O. Moulton, Jr.<br>VP-Washington Operations<br>Pacific Telesis Group<br>(a subsidiary of SBC<br>Communications, Inc.) | A. Dale Robertson<br>Senior VP-FCC<br>Southwestern Bell Corp. |

Attachment

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Mr. Richard K. Welch
Mr. William F. Caton

# UNIVERSAL SERVICE/ACCESS REFORM FOR PRICE CAP COMPANIES

## Universal Service - High Cost Fund

1. Size of interim interstate universal service high cost fund based upon interstate carrier common line revenue (after removal of payphone and LTS), plus interstate switch line port costs (approximately 30% of current interstate local switching revenue), plus current USF and weighted DEM, LTS, Lifeline and Link-up.
2. Funding obligation based upon each carrier's share of interstate retail revenues.
3. LEC recovery of funding obligation through presubscribed line (PSL) charge to IXCs.
4. Interstate universal service high cost fund identified by study area. Proxy model used to target support to smaller high cost geographic areas.

## Universal Service - Education & Libraries

1. Internal connections and Internet are removed from list of items eligible for universal service support. Size of universal service fund for education/libraries is reduced (from current $2.25 billion) and supports only discounts on eligible telecommunications services. Fund contributions are recovered through an end user surcharge.
2. Non-profit foundation is created with funding from eight large local exchange carriers that will ensure that a) all classrooms and libraries are wired with 5 connections by the year 2000 and b) all economically disadvantaged and rural schools have access to the Internet.

## Access Reform

1. Carrier common line charge reduced to zero.
2. Local switching reduced by switch line port costs (approximately 30%).
3. Presubscribed line charge (PSL) applied to IXCs to recover interstate high cost funding obligation.
4. Transport Interconnection Charge (TIC) reduced by moving service related components to new or existing rate elements.
5. Remaining TIC recovered through TIC PSL charge applied to IXCs.
6. Combined USF and TIC PSL charge not to exceed $2.00. Any remaining amount recovered through a new TIC usage charge.
7. Price cap productivity changes targeted to TIC usage charge first and then TIC PSL charges.
8. Terminating usage charges would be no higher than originating usage charges.
9. LEC price cap index changes should be based on LEC total factor productivity.
10. When the LEC network is used, LECs are entitled to recover all interstate costs.